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December 13, 2000

Honorable Board of Supervisors  
County of Orange  
Santa Ana, California

Your Honorable Board:

The Comprehensive Annual Financial Report of the County of Orange, State of California, for the fiscal year ended June 30, 2000, is hereby submitted in accordance with the provisions of Sections 25250 and 25253 of the Government Code of the State of California. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

Copies of this Comprehensive Annual Financial Report, the County Proposed and Final Budgets, booklets specifying the tax rates and assessed valuations of taxing agencies in Orange County, and financial reports of certain funds or functions for which the County has fiduciary responsibility, may be obtained from the office of the County Auditor-Controller.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the County's organizational chart and a list of principal County officials. The Financial Section includes the general purpose financial statements, and the combining and individual fund and account group financial statements and schedules, as well as the independent auditor's report on the financial statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and questioned costs, and the independent auditor's report on internal control and compliance with applicable laws and regulations, are included in a separate annual publication.

This report includes all funds and account groups of the County, as well as its component units. Component units are separate legal entities for which the County is considered to be financially accountable. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, waste management, airport management, and general financial and administrative support.

Blended component units, although legally separate entities, are, in substance, part of the County's operations, and therefore data from these units are combined with data of the County. The County has one component unit, the Orange County Children and Families Commission (OCCFC), which requires discrete presentation in the general purpose financial statements for the fiscal year ended June 30, 2000. The following entities are presented as blended component units in the general purpose financial statements for the fiscal year ended June 30, 2000: the Orange County Flood Control District, Orange County Development Agency, Orange County Housing Authority, Orange County Civic Center Authority, Orange County Financing Authority, Orange County Special Financing Authority, Orange County Public Financing Authority, Orange County Public Facilities Corporation, and certain special districts.

## Economic Condition and Outlook

### Area Population

With a population of over 2.8 million, Orange County is one of the major metropolitan areas in California and the nation. Orange County represents the third most populous county in the state, and ranks sixth in the nation. Population growth mirrors the average for the state, about 1.8% annually.

### Area Economy

Orange County represents one of the major economic centers in the state and nation. If Orange County were a nation, its economy would rank 32nd among all the countries in the world, above such countries as Greece, Israel, and the Philippines. The Anderson Center for Economic Research at Chapman University estimates its Gross County Product (GCP) at \$118.5 billion during 2000.

Orange County government has emerged from bankruptcy with a solid recovery plan in effect. Housing price appreciation has returned, with double-digit appreciation evident in certain areas of the County. The County also continues to be represented by a solid economic base in construction, non-durable goods, retail trade and services. It should be noted that a significant sector of the local economy is dependent upon international trade. Therefore, while the forecast for the local economy remains bright, any significant slowdown in the economies of our international trading partners will continue to influence the County's overall level of economic growth.

### Unemployment Rate and Tax Base

Orange County's unemployment rate, which reflects the number of unemployed County residents as a percent of the labor force, remains one of the lowest among California counties. As of August 2000, the unemployment rate stood at 2.7%. This compares favorably to rates of 5.7% for neighboring Los Angeles County, 5.0% for California, and 4.1% for the nation.

After an extended period of a depressed real estate market, Orange County's housing sales and prices have rebounded to healthy levels. This is reflected in the value of Orange County's tax base. Total assessed valuation increased by \$19.4 billion, or 9.3% over FY 1999-2000 reaching \$228.5 billion in FY 2000-2001.

### Recent Industry Employment Trends and the Local Economy

Despite the tight housing market, monthly wage and salary employment statistics released by the State Employment Development Department (EDD) estimate the number of jobs located in Orange County will increase regardless of where the employee resides. The latest wage and salary employment estimates from EDD illustrate the County's strong economic base. Total nonfarm jobs in the County reached 1,399,400 in October 2000, reflecting a 2.8% increase over the 1,361,700 jobs in October 1999—an increase of 37,700 nonfarm jobs. Employment in the trade sector recorded gains of 6,400, led by wholesale trade with 3,000 jobs. Manufacturing employment was up by a net of 4,500, led by the durable goods sector with 3,400 jobs. Employment in the services sector increased by 16,400 led by business services with 7,800 jobs. Other significant major nonfarm industry categories with job gains included construction (up 4,400); transportation and public utilities (up 1,900); finance, insurance and real estate (up 700) and government (up 3,300). Mining employment remained relatively unchanged over the year (reflecting an increase of 100 jobs).

### County Median Family Income

According to the Anderson Center for Economic Research, Orange County's median family income is expected to increase from \$64,000 during 2000 to a figure of \$71,200 in 2001, representing an increase of 11%.

### Bankruptcy Recovery

On December 6, 1994, the County of Orange filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of substantial losses in the Orange County Investment Pool. The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1.6 billion, approximately \$600 million of which was allocable (on a pro rata basis) to the County's accounts, with substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts.

The County's bankruptcy was the largest municipal bankruptcy ever. After a period of about eighteen months, the County's comprehensive recovery plan was approved by the Federal Bankruptcy Court and the County emerged from the bankruptcy on June 12, 1996. The County's recovery from bankruptcy was in large measure due to the implementation of a strong County Executive Officer (CEO) concept of corporate management, unique among California counties. The corporate management system, which incorporated a fundamental restructuring of the core County government, implementation of annual business plans, and a long range strategic financial plan, has resulted in a fiscally viable County that received a series of upgrades by the three principal rating agencies rating municipal debt, resulting in the County's current ratings: Moody's: Aa3, Fitch IBCA: AA-, and Standard and Poor: A.

The recovery has not been without significant cost, namely a debt burden of over \$1 billion. Recognizing the need to reduce this burden in order to free up scarce General Fund dollars for more productive uses, the Board of Supervisors has made early debt reduction a high priority. Consequently, as unanticipated revenues have become available the Board has directed that most of the money be dedicated to early debt reduction. As a first step, in June 1998, about \$31 million in bankruptcy related debt was removed from the books through a legal defeasance of a portion of the 1995 Refunding Recovery Bonds.

During the bankruptcy, the Representative (as defined in the Second Amended Plan of Adjustment) filed suit on behalf of the County and the Pool Participants against several financial institutions, bond attorneys and others (Pool-Related Litigation). All Pool-Related Litigation was settled out-of-court. On February 2, 2000, United States Bankruptcy Court Judge John E. Ryan of the Central District of California signed an order approving the following:

- 1) Distribution of Net Litigation Proceeds on February 24, 2000
- 2) Distribution in Respect of Assigned Excluded Claims
- 3) The Representative's Fees
- 4) Certain Other Actions of the Representative
- 5) The Representative's Final Report

On February 24, 2000, the County received \$312 million of the total litigation proceeds of \$809.3 million, which represents the County's portion of settlement proceeds of the Pool-Related Litigation. Of the amount received by the County, \$5.8 million was used to pay Class B-12 claims and \$9 million was spent on Option B warrants. The net proceeds to the County were \$297.2 million. With respect to the other Pool participants, total payments to reduce bankruptcy losses restored 97 cents on the dollar of pre-bankruptcy balances for schools, and 93 cents on the dollar for non-school Pool participants. It is not possible to express the County's balances in the same fashion because of the related long-term debt.

The net proceeds, along with cash from other sources, were used to reduce the County's debt related to the Taxable Pension Obligation Bonds Series 1994A, the Taxable Refunding Pension Obligation Bonds Series 1996A and 1997A, collectively referred to as the "Pension Bonds." A Tender Offer process completed on May 11, 2000 resulted in the purchase and cancellation of approximately 45% of the outstanding Pension Bonds. The remaining Bonds were prepaid through an economic defeasance on June 22, 2000. The total cash amount required for the two transactions was approximately \$363.7 million.

## Major Initiatives for Fiscal Year 1999-2000

### Fiscal Year 1999-2000 General Fund Budget

Total discretionary funding for the County's fiscal year 1999-2000 Final Budget was \$418 million. This included fund balance available of nearly \$107 million plus general purpose revenues of \$311 million. The general purpose revenues increased by \$13 million, or 4% over fiscal year 1998-99 due to growth in property taxes and motor vehicle license fees. Total discretionary funding was within 0.4% of the amount projected by the County's 1999 Strategic Financial Plan.

The budget funded all fiscal year 1999-2000 Board-approved strategic priority projects, reserved \$35.1 million for future years' planned strategic priority projects, increased the Provision for Contingencies appropriations within the County General Fund to \$20 million and added \$5 million to the Debt Repayment Reserve. A total of \$27.1 million in the Debt Repayment Reserve (which included the \$5 million increase approved in the FY 1999-2000 budget) was later transferred to the Debt Prepayment Fund and was used in the defeasance of the County's Pension Obligation Bonds. It was also the first County budget to include Countywide strategic performance measures and executive-level performance measures for departments.

The budget also contained significant items specific to individual departments. It included enhanced District Attorney/Family Support Division collection and enforcement efforts with an additional \$3.4 million and 114 new positions paid for with State and Federal funds. The County realized \$20 million in savings of Trial Court Funding costs resulting from the first full year of experience with Assembly Bill 233 (AB233), reduction in maintenance of effort (MOE) payments to the State, and by reaching an agreement with the Courts on the ownership of certain revenues.

In other program areas, the budget included \$9 million in new funds for health care programs consisting of \$6 million in State, Federal and other revenues and \$3 million from County General Funds. The Community and Social Services Program required nearly \$4 million less in County General Funds due, in part, to reductions in caseloads, financial assistance to families with dependent children, and general relief. The budget enhanced the County's Code Enforcement Program with seven new positions and \$1 million additional funding. The budget included funds for improvements to the central utilities facility in the Santa Ana Civic Center and deferred maintenance and Americans with Disabilities Act (ADA) projects.

### Negotiations with Employee Bargaining Units

The fiscal years 1998-1999 and 1999-2000 Memoranda of Understanding were extended for an additional year with all labor organizations with the exception of the Orange County Attorney's Association (OCAA) and the Association of Orange County Deputy Sheriffs (AOCDS).

The extensions provide for a 3.25% base increase and a 1% non-base building performance pay incentive. The payout of incentives in year three of the Agreement will be in accordance with the jointly developed Performance Incentive Program (PIP). The 1% incentive that was originally established to be paid in year two of the Agreement will be combined with the third year for a total amount of 2%. These payouts will begin in January 2001.

The Memorandum of Understanding for the AOCDS expired in October 1999. Negotiations with this labor organization concluded in October 1999 and resulted in a three-year Agreement, which will expire in October 2002. This Agreement provides for a 3.5% or 3.75% increase for specific classifications in the first year of the Agreement, a 4% increase for all classifications in the second year of the Agreement, and fully paid retirement in the third year of the Agreement.

The Memorandum of Understanding for OCAA expired in June 2000. Negotiations with this labor organization concluded in June 2000 and resulted in a three year Agreement which will expire in June 2003. This Agreement provides for a 4% general wage increase in the first and second year of the Agreement and a fully paid retirement in the third year of the contract. Additionally, 1% non-base building performance pay incentives are available in each year of the Agreement. The pay out of incentives will be made in accordance with the jointly developed Performance Incentive Plan.

The cost of salary increases has been included in the County Strategic Financial Plan.

### Year 2000 Compliance

Due to a highly successful mitigation effort, only a few minor incidents related to the Year 2000 (Y2K) and Leap Year rollovers were encountered and they were typically resolved within a few hours. No open issues remain and this project is closed.

### Major Initiatives for the Future

#### Retirement Rate Agreement

The Board and the Orange County Employees' Retirement System (OCERS) Board signed an agreement in 1996 for the use of \$318 million in pension obligation bond proceeds. The proceeds from the bonds were placed in an investment account within OCERS, for the sole purpose of paying County annual obligations for retirement. The investment account is credited with market earnings of OCERS and debited according to a formula that considers available balance and obligations. The investment account balance as of June 30, 2000 was \$265.1 million (unaudited).

The County is required to pay any retirement costs not paid by the investment account. The investment account was originally projected to pay 75% of the County's retirement costs in FY 2000-2001; however, due to higher than anticipated investment earnings, the County's \$43.9 million retirement cost for the year will be paid entirely by the investment account.

#### Marine Corps Air Station El Toro

In 1993, the Defense Base Realignment and Closure Commission directed the closure of Marine Corps Air Station (MCAS) El Toro ("El Toro" or "the base") effective July 1999. In April 1995, the County was designated by the Federal government as the Local Redevelopment Authority (LRA) for the base. As the LRA, the County is responsible for preparing and implementing a "Community Reuse Plan" for transition of the 4,700 acre base to civilian uses. The Federal government encourages the development of Community Reuse Plans which facilitate local economic redevelopment, job creation and timely environmental cleanup.

In December 1996, the Board, acting as the LRA, adopted a final MCAS El Toro Community Reuse Plan, approved the Homeless Assistance Submission, and certified the supporting Environmental Impact Report (EIR). The Community Reuse Plan was subsequently submitted to the Department of Navy for consideration. When the Community Reuse Plan was adopted, the Board directed the CEO to initiate the next phase of planning for the base, specifically, the preparation of a Planned Community/Specific Plan for the entire base and an Airport System Master Plan addressing aviation services and facilities at both El Toro and John Wayne Airport, Orange County. The Marines vacated the base in June 1999.

The County has retained two consultant teams to prepare the Planned Community/Specific Plan and Airport System Master Plan. These plans, combined with additional planning to be undertaken by the El Toro Master Development Program, will form the basis for recommendations regarding to whom, and by what means, base property should be conveyed. It is anticipated that much of the base will be requested by and conveyed to the County, which will then serve as a "master developer" of the site. The County's role will extend over many years, and can be characterized in two primary phases: (1) Planning (2) Maintenance and Implementation. The Planning Phase is currently in progress and is scheduled to be completed by late 2001. During this phase, a Planned Community Specific Plan, Airport System Master Plan and a second EIR will be completed and submitted to the Board for consideration. The County's current Maintenance and Implementation Phase includes a personal property distribution program, caretaker services to maintain base facilities, and interim leasing of selected recreational and public service facilities. The County signed a five-year Master Lease with the Department of Navy in September 2000 to continue these activities.

In March 2000, Orange County voters passed the Safe and Healthy Communities Initiative as an election ballot measure. The initiative required a two-thirds vote at a County general election to ratify an act by the County to approve any new or expanded jail, hazardous waste landfill, or civilian airport project. On December 1, 2000, a Superior Court Judge invalidated Measure F in its entirety. Appeals are expected.

### Santa Ana River Mainstem Project

The Santa Ana River Mainstem Project is a major flood control project, which when fully completed, is designed to prevent the type of devastating damage caused by large-scale flooding that occurs on the average of every 190 years in the Santa Ana River flood plain. It involves a combination of flood channel widening and reinforcement, construction of a new dam, Seven Oaks Dam, and raising the existing dam, Prado Dam.

The Federal government, Orange County Flood Control District (OCFCD), San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control and Water Conservation District are cost sharing the U.S. Army Corps of Engineers' (COE) estimated total project cost of \$1.3 billion. The OCFCD currently estimates its share to be \$413 million for acquisition of real property rights for construction of the project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions. This estimate is based on recent indication of support by the COE for the Federal government to finance 50% of the total Prado Dam costs, subject to Federal appropriations to do so.

OCFCD's remaining share of project costs exceeds current available funds. However, the project has been authorized by the State Legislature, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD expenditures). The State currently has estimated a budget of \$53.6 million to reimburse OCFCD for this project. This money will be disbursed to the OCFCD as claims are reviewed and approved by the State Department of Water Resources. To date, the OCFCD has spent approximately \$197 million, submitted \$119.5 million in claims for reimbursement, and has received approximately \$87 million.

### Strategic/Financial Plan

The County Executive Office prepares an annual Strategic Financial Plan (Plan) which is an integral part, along with departmental business plans and the budget, of the corporate management system. The Plan consists of an economic/revenue forecast provided by Chapman University and operational spending forecasts provided by each County department. The purpose of the Plan is to:

- Provide a long range financial context for program and infrastructure decisions
- Demonstrate the viability of the County's baseline operations
- Identify potential financial challenges
- Identify opportunities to fund new "strategic priorities" (e.g. jail expansion)
- Provide the framework for budget policies

For the most part, departmental budgets for FY 2000-2001 have met the 2000 Plan targets resulting in the Fund Balance Available (FBA) for the General Fund to be greater than estimated in the 2000 Plan. The 2001 Plan was prepared with the County's department heads and the Board of Supervisors having collectively identified 42 strategic priorities. The draft 2001 Plan forecasts and recommendations were presented to the Board of Supervisors at its meeting on November 20, 2000. The 2001 Plan was approved on December 5, 2000.

In continuing to pursue positive actions with respect to our Debt Reduction policy, the Board will next target the 1995 Recovery Bonds for debt reduction. The funds available include approximately \$30 million in the Debt Prepayment Funds, \$56.5 million allocated through FY 2005-2006 pursuant to the Strategic Financial Plan, and \$7.5 million of FY 2000-2001 Tobacco Settlement Revenues for a total of \$94.0 million through FY 2005-2006.

### Tobacco Settlement

The County's share of Tobacco Settlement Revenues is estimated to be from \$28.3 million in 2001 to \$40.6 million in 2031. In November 1999, the Board approved the use of approximately 75% of the Tobacco Settlement funds for debt reduction and jail construction, and 25% for health related expenditures. A health advocacy coalition circulated a petition to qualify an initiative for the November 2000 ballot allocating 80% for health-related expenditures and 20% for public safety. A committee comprised of two Board members and CEO staff met with members of the health coalition to explore additional spending recommendations. The Board then voted for a compromise of a 50/50 split, 50% for debt reduction and jail construction and 50% for health programs.

The health coalition filed a qualifying petition for an 80/20 split with the Registrar of Voters, and on July 20, 2000 the Board ordered that the initiative be placed on the November 7, 2000 ballot as Measure H. On the same day, the Board ordered a petition filed with the Superior Court seeking a court order removing the initiative from the ballot because of County Counsel's advice that the measure is unconstitutional. On August 30, 2000 a Superior Court judge denied the Board's petition to remove Measure H from the ballot.

On November 7, 2000, Measure H passed with 65% of Orange County voters in favor of spending 80% of the Tobacco Settlement Revenues for healthcare and 20% for public safety. On November 27, 2000, the County filed a legal challenge to the constitutionality of Measure H.

#### Orange County Children and Families Commission

The Orange County Children and Families Commission (OCCFC) was created as a result of Proposition 10, the California Children and Families Act, which was approved by voters in November 1998. The proposition adds a 50-cent excise tax on tobacco products sold in California and requires that the funds received be used to support early childhood development needs for children prenatal to age five. OCCFC is responsible for overseeing the allocation of an estimated \$48 to \$50 million of tobacco tax revenues received annually for programs that meet education, health and development needs of our County's youngest children and their families. Studies show that the care a child receives before his or her fifth birthday is essential for their well being. In this year alone, the OCCFC will be investing \$37.5 million for community services to Orange County's prenatal to age five populations to ensure that all Orange County children grow up in a safe, supportive, and nurturing environment.

#### Department Focus

##### Social Services Agency

The CalWORKs Program, the California program to implement federal welfare reform legislation, has fundamentally changed from a system that fosters dependency to one that promotes an affirmative emphasis on self-sufficiency and personal responsibility. To accomplish these goals, the Social Services Agency (SSA) has experienced major cultural, organizational, and programmatic changes.

Since the implementation of CalWORKs in January 1998, the caseload has dropped 24%. Of the remaining cases, 70% of the clients who are required to work are reporting earned income. SSA's efforts to remove barriers and to promote client access to employment resulted in more than \$33 million of federal incentive funds awarded to the County. Use of the funds is restricted to promote federal welfare reform goals. With these incentive funds, SSA has been able to further the goals of the CalWORKs program by expanding programs in Orange County and enhance services that are congruent with agency goals and programs.

#### Budgetary Controls

The County maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. Activities of the General Fund and most of the special revenue, debt service, and capital projects funds are included in the annual appropriated budget. The level of budgetary control (that level which cannot be exceeded without action by the Board) is the fund-agency unit level, which represents a department or an agency. The County also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered appropriations do not lapse at year-end; encumbrances outstanding at that time are reported as reservations of fund balance for the following year's budget.

#### Financial Information

Management of the County of Orange is responsible for establishing and maintaining internal controls designed to ensure that the assets of the County are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from it. The evaluation of costs and benefits requires estimates and judgments by management.

### Single Audit

As a recipient of Federal and State financial assistance, the County is also responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. Internal controls are subject to periodic evaluation by management and the Internal Audit Department.

As part of the County's single audit, described earlier, tests are made of the County's internal controls and of its compliance with applicable laws and regulations, including those related to federal awards. The County's single audit for the fiscal year ended June 30, 2000 is in process.

### General Government Functions

The following schedule presents a summary of General Fund revenues and other financing sources, and residual equity transfers from other funds for the fiscal year ended June 30, 2000 and increases and decreases in relation to prior year amounts (in thousands).

Source	1999-00 Amount	Percent of Total	Increase (Decrease) from 1998-99	Percent of Increase (Decrease)
Revenues				
Taxes	\$ 191,377	10.9%	\$ 13,340	7.5%
Licenses, Permits, and Franchises	6,823	0.4	(362)	(5.0)
Fines, Forfeitures and Penalties	37,856	2.2	228	0.6
Use of Money and Property	25,688	1.5	10,667	71.0
Intergovernmental Revenues	1,078,771	61.6	85,609	8.6
Charges for Services	233,485	13.3	10,046	4.5
Other Revenues	77,423	4.4	6,200	8.7
Other Financing Sources				
Operating Transfers In	80,638	4.6	16,570	25.9
Proceeds from Capital Lease Obligations	19,685	1.1	19,637	--
Residual Equity Transfers From Other Funds	216	--	(271)	--
Total	<u>\$ 1,751,962</u>	<u>100.0%</u>	<u>\$ 161,664</u>	

The following information provides a brief summary of the primary factors attributable to increases in General Fund revenues:

#### Taxes

- Increased property tax revenues resulting from a good economy and higher property values.
- Increased transfer taxes due to a larger number of houses being sold combined with an increase in the price of houses sold.

#### Use of Money and Property

- Higher interest revenues resulting from a bankruptcy related distribution of funds attributed to interest earnings.
- Increase in interest rate yields on a higher General Fund cash balance.

#### Intergovernmental Revenues

- Significant increase in taxable sales resulting in increased Proposition 172 revenues. Proposition 172, the Public Safety Sales Tax, is a voter-approved measure passed in 1994 establishing a ½-cent sales tax on an ongoing basis for local public safety.
- Increased funding for the California Work Opportunity and Responsibility to Kids (CalWORKs) program because of welfare reform.
- Increased revenues from motor vehicle license fees due to a continued rise in automobile sales in FY 99-00.
- Increased revenues for health care programs such as Mental Health Realignment, Alcohol and Drug Abuse, and Managed Care combined with a new grant for mentally ill offenders.
- Higher claim reimbursements from the Child Support IV-D program along with increased efforts to process outstanding supplemental claims.



#### Charges for Services

- Negotiated increase in labor costs charged to contracting cities and other entities for law enforcement services and court security coupled with two new contracts signed in FY 99-00 (El Toro Security and Laguna Woods) which provided additional revenue. In addition, increased reimbursement of claims for law enforcement training also contributed to the increase in revenues.
- Increased Federal Medi-Cal and Public Health Medi-Cal/SB910 revenues received from existing and expanded services and Overseas Immunization fees (fees charged to those who use County facilities to obtain required immunizations for travel to certain foreign countries). SB 910's main program, the Target Case Management Services, is an outreach program for eligible Medi-Cal recipients to educate them on available services as well as to assist recipients in gaining access to needed services. Also, increases in Animal Care Service fees from contracting cities contributed to the increase in revenues.
- Increased revenue from investment services and credit card fees.
- Increases partially offset by
  - A decrease in revenues from Registration and Elections due to the cyclical revenue stream for this department reflected by whether or not a particular year is an election year.
  - A decrease in revenues from recording fees due to a decline in home mortgage loan refinancing resulting from a rise in mortgage interest rates in FY 99-00.

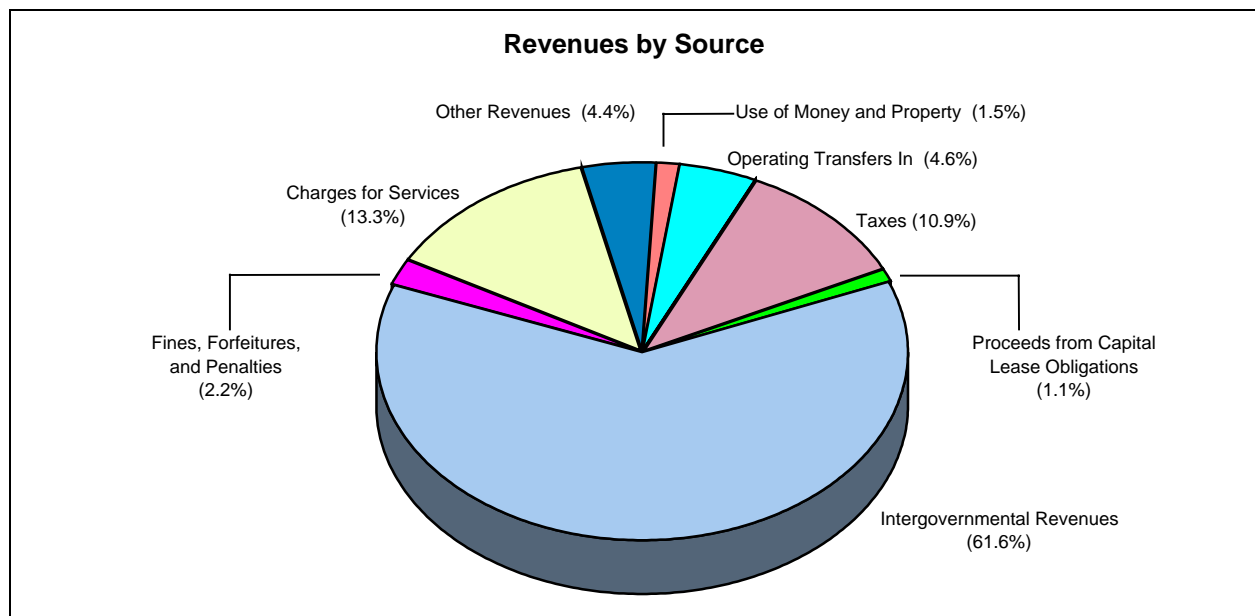
#### Operating Transfers In

- Transfer from the Tobacco Settlement Fund for use in debt service expenditures outlined in the Strategic Financial Plan.
- Transfer from Designated Special Revenue Fund for deferred maintenance and ADA projects combined with a one-time reimbursement of \$1.5 million for the District Attorney's lease/conveyance agreement for space for its Criminal Division.
- Transfer from Public Safety Sales Tax Excess Revenues Fund to cover law enforcement expenditures for the District Attorney department.
- Increased methamphetamine lab grant claims in FY 99-00 resulting in higher reimbursement monies.
- Increases partially offset by a decreased need for excess Proposition 172 monies by the Sheriff's department to fund its programs and services.

#### Proceeds from Capital Lease Obligations

- Acquisition of a building for the District Attorney department.

The following diagram shows each revenue source as a percentage of total General Fund revenues. Revenues from Licenses, Permits, and Franchises and Residual Equity Transfers from Other Funds are not displayed on the diagram because they represent less than .5% of total revenues.



The following schedule presents a summary of General Fund expenditures and other financing uses for the fiscal year ended June 30, 2000, and increases and decreases in relation to prior year amounts (in thousands).

Function	1999-00 Amount	Percent of Total	Increase (Decrease) from 1998-99	Percent of Increase (Decrease)
Current Expenditures				
General Government	\$ 107,525	6.2%	\$ (549)	(0.5)%
Public Protection	593,713	34.5	46,629	8.5
Public Ways and Facilities	24,734	1.4	3,451	16.2
Health and Sanitation	308,379	17.9	25,365	9.0
Public Assistance	479,487	27.9	25,564	5.6
Capital Outlay Expenditures	39,282	2.3	19,878	102.4
Debt Service Expenditures	8,736	0.5	1,063	13.9
Other Financing Uses				
Operating Transfers Out	159,746	9.3	55,445	53.2
Total	<u>\$ 1,721,602</u>	<u>100.0%</u>	<u>\$ 176,846</u>	

The following information provides a brief summary of the primary factors attributable to the increases in General Fund expenditures:

#### Public Protection

- Addition of several new positions in the District Attorney's Criminal and Family Support Divisions and at the Sheriff's department for the Theo Lacy Jail expansion combined with increases in cost of living, retirement and group insurance expenditures.
- New positions were added in the Probation Department due to expansions in the Early Intervention and Juvenile Drug Court programs as well as the implementation of new programs such as the County Islands project and a diversion program for older youths. These Probation Department programs also caused increases in contract costs.
- Increase partially offset by a decrease in State-required charges resulting from a successful appeal by the County.

#### Health and Sanitation

- Increase in contract services for Adult, Children and Youth Mental Health programs as well as Alcohol and Drug Abuse Service programs.
- Cost of living increases and the more rapid filling of vacant positions combined with new programs and program expansions in Public Health and Behavioral Health.
- Increases in part offset by reimbursements from the Social Services Agency to support their CalWORKs program.

#### Public Assistance

- Increased expenditures are due to welfare reform, which has increased the need for privatized and supportive services such as child care, transportation, and ancillary costs.
- Addition of new positions in such programs as Child Welfare Services, Adult Protective Services, In-Home Supportive Services and CalWORKs as well as cost of living increases and merit raises.
- Increase in foster care caseloads along with an increase in the cost per case due to a State-required increase in the cost of living adjustment for Group Homes, Foster Family Homes, Seriously Emotionally-Disturbed Children, and Adoption Assistance Program cases.
- Increases partially offset by a reduction in assistance caseloads and related costs for welfare payments to clients in the CalWORKs program.

#### Capital Outlay

- Acquisition of a building for the District Attorney department.

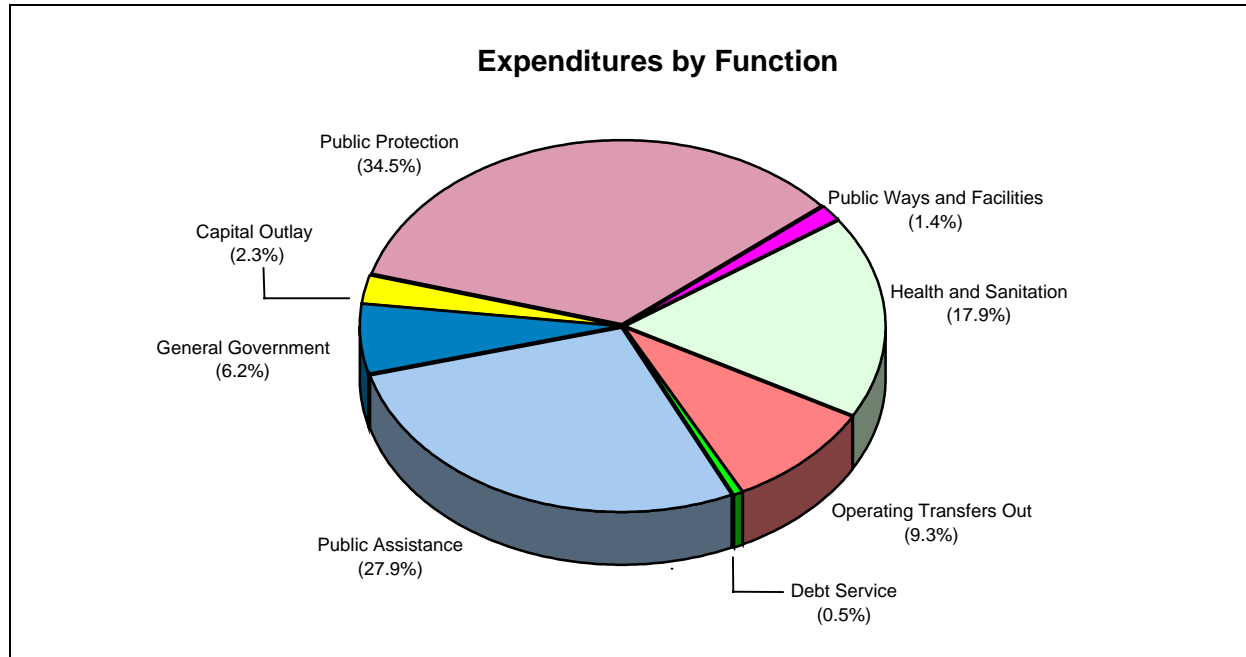
#### Debt Service

- A one-time payment for a lease/conveyance agreement along with an increase in principal payments for the new building used by District Attorney's Criminal Division.
- Increase somewhat offset by a decrease in principal payments due to the outright purchase of helicopters which were previously leased.

#### Operating Transfers Out

- A \$43 million transfer to the Debt Prepayment Fund for the defeasance of the Pension Obligation Bonds.
- A \$7 million transfer to the Sheriff-Coroner Construction and Facilities Development Fund for the Theo Lacy Jail expansion.
- Increased transfer to the Recovery Plan of Adjustment Available Cash Fund as required by the Bankruptcy Plan of Adjustment.
- Increased transfer of excess Proposition 172 revenues to the County Public Safety Sales Tax Excess Revenue Fund.
- Increases slightly offset by decreases due to a one-time transfer to a newly established fund in FY 98-99 for shelter care facilities approved in the Strategic Financial Plan.

The following diagram shows each category of expenditures as a percentage of total General Fund expenditures.



The fund balance of the General Fund increased by approximately \$30 million (14.6% increase from FY 98-99) during the year ended June 30, 2000.

#### Appropriations Limit

Article XIII B of the California Constitution, as amended by Proposition 111, approved by the voters in June 1990, limits appropriations from the proceeds of taxes. Appropriations are limited to the prior year's amount adjusted by a factor based on population growth and increases in personal income or non-residential assessed value. Proposition 111, in addition to providing greater flexibility in the computation of increases to the appropriations limit, exempts from the limit certain appropriations for fixed assets. The County does not believe it is in danger of reaching its limitation in the next several years.

#### Enterprise Operations

##### Airport

John Wayne Airport (JWA) operations are accounted for in an enterprise fund. JWA provides commercial air travel, air cargo, and general aviation services. Total passenger traffic at JWA for the current year increased 6.8% over FY 1998-99. This increase in commercial aviation activity resulted in an increase in operating revenues over the prior year. Operating income at JWA is sufficient to enable the enterprise fund to continue servicing debt and meeting operating costs without support from the County General Fund.

### Waste Management

The Integrated Waste Management Department (IWMD) operations are accounted for in an enterprise fund. The Waste Management Enterprise consists of three active landfills, four Household Hazardous Waste Collection Centers, and twenty-two closed landfill sites. The active facilities provide for the disposal of solid waste, and the collection and disposal of household hazardous waste for Orange County residents. The disposal fees charged to users of disposal facilities are the primary sources of revenue. During fiscal year 1999-2000, operating revenues were sufficient to enable the enterprise to service debt and fund operations without support from the General Fund.

The Waste Management Enterprise also imports solid waste in order to provide revenue to the County General Fund for use in meeting County bankruptcy related obligations. During fiscal year 1999-2000, IWMD contributed \$14 million of net imported revenue to the County General Fund.

### Debt Administration

At June 30, 2000, the County had a number of debt issues outstanding. Under current State statutes, the County's general obligation bonded debt issues are subject to a legal limitation based on 1.25% of the total assessed value of real and personal property. As of June 30, 2000 the County had no net general obligation bonded debt. The County's legal debt limit was \$2.6 billion.

### Cash Management Policies and Practices

Cash temporarily idle during the year was invested in the Orange County Treasurer's Money Market Investment Pools. The Treasurer maintains two separate investment pools, the Orange County Treasurer's Money Market Commingled Investment Pool (County Pool) and the Orange County Treasurer's Money Market Educational Investment Pool (Educational Pool), the latter of which is utilized exclusively by the County's school districts. The investment of the County and Educational Pools is governed by the California Government Code and the Treasurer's Investment Policy Statement (IPS). The IPS is submitted annually to the Treasury Oversight Committee and the Board of Supervisors and authorizes investments in the following categories: U.S. Government securities, securities of federally-sponsored agencies, domestic commercial paper, negotiable certificates of deposit, repurchase agreements, bankers' acceptances, money market mutual funds, State of California or California Municipal debt, receivable-backed securities, and medium-term notes. The IPS prohibits borrowing for investment purposes, reverse repurchase agreements, and volatile structured notes and derivatives. The maximum allowable maturity of any portfolio instrument is 13 months and the average maturity of all portfolio instruments, on a dollar-weighted basis, will not exceed 90 days. Investments are marked to market on a daily basis. If the net asset value of either the County Pool or the Educational Pool is less than \$.995 or greater than \$1.005, portfolio holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.

On June 20, 2000, the Board of Supervisors approved a revised IPS with an effective date of July 1, 2000. The new IPS establishes a Money Market Fund and an Extended Fund as components of the County and Educational Pools. The maximum term of any investment under the Extended Fund is three years and the weighted average maturity is limited to 18 months. The maximum term of any investment in the Money Market Fund remains thirteen months with the weighted average maturity limited to 90 days. The Treasurer will determine, based on cash flow projections, the amount of money to invest in the Extended Fund.

In addition to "Pooled Cash/Investments," the Treasurer maintains individual specific investments for certain funds. These amounts comprise a small portion of the total investments managed by the Treasurer. The permitted investments for these funds are dictated by operation of federal or state statute, bond documents, and by mutual agreement with the investing entity.

The County held a portion of its Restricted Cash and Investments with Trustee in the form of non-participating Bank Investment Contracts (BICs). These BICs are considered deposits with financial institutions and amount to \$57.7 million, of which \$200,000 was insured by FDIC insurance with the remainder uncollateralized. The remaining portion of the County's deposits are either insured by federal depository insurance or are collateralized with securities having a market value of at least 110 percent of the deposits in accordance with Section 53652 of the California Government Code. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. Portfolio investments, other than money market mutual funds, are held by a third party custodian in the County's name and are classified in the category of lowest custodial credit risk as defined by the Governmental Accounting Standard Board.

At June 30, 2000, the weighted average maturity of the County Pool was 86 days and the Educational Pool was 82 days. The average daily investment balance of the County Pool and the Educational Pool amounted to \$1.941 billion and \$1.082 billion, with an average effective yield of 5.92% and 5.89%, respectively, for the fiscal year ended June 30, 2000. The pools managed by the Treasurer have outperformed their designated benchmarks of the 90-day U.S. Treasury Bill and an average of four similar institutional money market funds.

### Risk Management

The County has maintained a formal risk management program since the mid 1970s. Risk Management functions include risk identification, measurement, avoidance, loss prevention and mitigation programs, liability transfer (by contract and commercial insurance), risk retention, managing claims and litigation.

Resources are budgeted in the Workers' Compensation and Property, Casualty and Risk Internal Service Funds to pay program costs including losses, expenses and administration costs. Commercial insurance coverage is purchased for the County's property and for certain specialized liability exposures such as airport, helicopter, watercraft, business interruption, crime bond, and notary bonds. All other liability exposures, including general, auto, and workers' compensation, are self-insured. Excess coverage for liability and workers' compensation has also been purchased. Various risk control techniques, including employee accident prevention training and regular work-site inspections, have been implemented to minimize losses. Actuarial studies are performed annually to determine the funding requirements for these activities.

### Other Information

#### Independent Audit

The general purpose financial statements have been audited by the independent certified public accounting firm of Macias, Gini & Company LLP. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and the Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Institutions." The independent auditor's report, on the general purpose financial statements and the supplemental combining, individual fund and account group financial statements and schedules, is included in the Financial Section of this report. The auditor's reports related specifically to the Single Audit will be included in a separate publication.

#### GFOA Award

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Orange for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1999. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

#### County of Orange Website

The County of Orange Internet Site at <http://www.oc.ca.gov> provides the citizens of Orange County, and everyone with internet access, extensive information about Orange County's government and the region. The site receives more than 1.5 million hits per month and contains 70,000 documents online. Information that can be accessed on the County's website include information about the Board of Supervisors, e-mail to Board offices, Board Agendas, County job listings, Purchasing bid solicitations, County directories and general information, assessment appeals, court information, local court rules, voter information, County forms, financial information such as the County tax rate book, the budget, and the three most recent Comprehensive Annual Financial Reports and specific County department information. In addition, the County's website also provides several online services such as the ability to listen to Board meetings live and archived, online public comments to Board agendas, County purchasing online, ordering birth, death and marriage certificates online, performing a Fictitious Business Name Search, and looking up election results and polling places. The County continues to improve the website by increasing each citizen's ability to conduct business online with the County.

### Acknowledgments

I would like to express my sincere appreciation to the staff from my office, other County departments, and the staff of the certified public accounting firm of Macias, Gini & Company LLP for making possible the timely presentation of this Comprehensive Annual Financial Report. I hope this report will be of interest and use to those in County government, other governmental agencies, and the public interested in the financial activity of the County of Orange.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David E. Sundstrom", written in a cursive style.

David E. Sundstrom, CPA  
Auditor-Controller